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# SENATE DEFEATS A MOVE TO BLOCK ARMS SALE LOANS

**Ban on Import-Export Bank  
Credit to Underdeveloped  
Nations Rejected, 48-40**

**ADMINISTRATION UPHELD**

**Vote Due Today on G.O.P.  
Amendment That Prohibits  
Financing of Communists**

By E. W. KENWORTHY  
Special to The New York Times

WASHINGTON, Aug. 9 — The Senate defeated today by a vote of 48 to 40 a move to impose a ban on the financing of arms sales to underdeveloped countries by the Export-Import Bank.

The showdown on the issue, which has stirred controversy in both houses of Congress for the last month, came on an amendment to a bill that would extend the life of the bank for five years and expand its lending authority from \$9-billion to \$13.5-billion.

The amendment, offered by Senator Allen J. Ellender, Democrat of Louisiana, would have prohibited the bank from making or guaranteeing loans to "any less developed country" or the purchase of arms.

## Defeat Urged

The Administration vigorously opposed the Ellender amendment, and high officials of the Departments of State and Defense have spent much time on Capitol Hill in recent days urging its defeat.

In the last two years, \$604-million in arms sales have been financed by Export-Import bank loans to 14 underdeveloped countries, most of them in the Middle East, South Asia and Latin America.

The Administration planned to make additional loans of \$256-million in the fiscal year, 1968, which began last July 1.

ment, also opposed by the Administration, was put off until tomorrow.

This amendment, which was offered by the Senate minority leader, Everett McKinley Dirksen, Republican of Illinois, and co-sponsored by 15 other Re-

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publicans, would prohibit the bank from making loans to any Communist country for the purchase of American products or to any other country if the products purchased were for eventual use in a Communist country.

## Fiat Plant Opposed

The immediate purpose of the Dirksen amendment is to prevent a \$50-million credit for the purchase of machine tools for a huge automobile plant being built by Fiat of Italy in the Soviet Union. The plant, with an annual capacity of 600,000 cars, is in the Volga River city of Togliatti, formerly Stavropol.

The machinery for using the Export-Import Bank to supply credit for arms purchases by less-developed nations is as follows:

The bank extends a line of credit to the Pentagon to make the loans to "country-X" nations, so-called because the bank does not know the names of the countries or wish to know them. Because these countries are not deemed credit worthy, the bank requires a guarantee from the Pentagon.

By amendments to the Foreign Assistance Act in 1964, the Pentagon was authorized to give a guarantee of 25 per cent of the loans. The money for the guarantees comes from a revolving fund created by Congress in 1957 and annually augmented. This revolving fund now amounts to \$383-million.

The Pentagon has also used the revolving fund to make direct loans to underdeveloped countries. The Ellender amendment would not have prohibited this. Nor would it have interfered with another provision of the Foreign Assistance Act, under which the Pentagon is permitted to make surplus arms of up to \$300-million available to friendly nations.

The Ellender amendment was aimed at taking the Export-Import Bank out of the business of making arms loans, either direct or country-X, and limit it to its traditional function of making loans to promote commercial exports.

The Administration victory could be nullified if Congress supports an amendment to the foreign aid bill approved two weeks ago by the Foreign Relations Committee.

This amendment, offered by Senator Frank Church, Democrat of Idaho, would gradually abolish the revolving fund. Without that fund, the Pentagon could not offer the 25 per cent guarantees and the bank would not make the country-X loans.

## Big Battles Due

Therefore, the big battles on the issue of arms sales to underdeveloped nations will take place when the aid bill reaches the floor of the Senate and House.

Twenty-seven Democrats and 13 Republicans voted for the Ellender amendment; 25 Democrats and 23 Republicans voted against it. Liberals and conservatives in both parties were split for and against the amendment, and there were many surprises.

For example, Senator Walter F. Mondale, Democrat of Minnesota, who was regarded as solidly opposed to Export-Import financing of arms sales, voted against the amendment. So did his Democratic colleague, Senator Eugene J. McCarthy, who has written articles against growing arms sales to less-developed nations.

Despite the fact that 40 per cent of the bank's loans in the last two fiscal years were for arms sales, and of this amount, 39 per cent were for country-X loans, Mr. McCarthy said the bank was "a very limited source of credit" for arms sales. He said that "a good third-rate nation today must have at least a jet squadron, or a Navy, or a boat."

Some senators and staff members said that several Senators from heavily urban states had voted against the amendment because Administration officials had told them that the amendment would operate against arms sales to Israel by denying it Export-Import Bank credit.

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